

DIRECT TESTIMONY
OF
EDMUND W. BLILER
FINANCE DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION
ON ITS OWN MOTION
-VS-
ILLINOIS POWER COMPANY

DOCKET NO. 99-0209

MAY 1999

1 **Q. Please state your name and business address.**

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3 A. My name is Edmund W. Bliler. My business address is 527 East Capitol
4 Avenue, P.O. Box 19280, Springfield, Illinois, 62794-9280.

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6 **Q. What is your current position with the Illinois Commerce Commission**
7 **(“Commission”)?**

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9 A. I am presently employed as a Financial Analyst with the Finance Department of
10 the Financial Analysis Division.

11
12 **Q. Please describe your qualifications and background.**

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14 A. I received a Bachelor of Science degree in Economics and Finance from Millikin
15 University in Decatur, Illinois. I have been employed by the Commission since
16 February 1990. I have previously testified before the Commission on financial
17 issues.

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19 **Q. Please state the purpose of your testimony in this proceeding.**

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21 A. On April 16, 1999, Illinois Power Company (“IP” or “Company”) filed notice with
22 the Commission of its intent to sell to Illinova Corporation specified electric
23 generating plants. On April 21, 1999, this proceeding was initiated by the

Commission to determine whether the proposed sale of the specified electric generating plants should be prohibited. One of the issues before the Commission under Section 16-111(g)(vi) of the Public Utilities Act ("Act") (220 ILCS 5/16-111(g)(vi)) is whether there is a strong likelihood that consummation of the proposed transaction will result in the Company being entitled to request an increase in its base rates during the mandatory transition period pursuant to Section 16-111(d) of the Act. The purpose of my testimony is to present my evaluation of the Company's projected earned rates of return on common equity ("ROEs"). I will address the likelihood that consummation of the proposed transaction will result in the Company being entitled to request an increase in base rates during the mandatory transition period pursuant to the Act.

Q. Please summarize your findings.

A. In IP Exhibit 3.2 and 3.6, the Company provided projected ROEs, as required by Section 16-111(g)(vi) of the Act. The Company calculated these projections in accordance with Section 16-111(d) of the Act, for each year from the date of the notice through December 31, 2004, both with and without the proposed transaction. Review of the Company's projected ROEs indicates there is not a strong likelihood that consummation of the proposed transaction will result in the electric utility being entitled to request an increase in base rates during the mandatory transition period pursuant to Section 16-111(d).

Q. What are the Company's projected ROEs?

A. As shown in IP Exhibit 3.2, for the period December 31, 1999 through December 31, 2004, the Company's projected ROEs are between 10.9% and 18.0%, giving effect to the proposed sale. Were the proposed sale not to occur, the projected ROEs are between 11.0% and 16.1%. As shown in IP Exhibit 3.6, for the period December 31, 1999 through December 31, 2004, the Company also projected ROEs using high market price and low market price projections. At higher projected market prices, the projected ROEs are between 7.0% and 16.0%, giving effect to the proposed sale, and between 11.0% and 16.1% were the proposed sale not to occur. At lower projected market prices, the projected ROEs are between 12.7% and 19.8%, giving effect to the proposed sale, and between 11.0% and 16.1% were the proposed sale not to occur.

Q. How were the Company's projected ROEs calculated?

A. The Company calculated its projected ROEs for the period December 31, 1999 through December 31, 2004 using amounts derived from projected financial statements giving effect to the proposed sale (IP Exhibits 3.3) and without the proposed sale (IP Exhibit 3.4). ROEs were calculated by dividing the 2-year average of Net Income Applicable to Common Stock by the average of the beginning and ending balances of Common Equity for the same period. Amounts used in the Company's calculations were adjusted to remove the after-

tax impact of amortization of the regulatory asset created by the Company's quasi-reorganization and are described on page five of IP Exhibit 3.1.

Q. Do the Company's projected ROEs indicate a strong likelihood that consummation of the proposed transaction would result in the Company being entitled to request an increase in base rates?

A. No, they do not. Under Section 16-111(d), if the Company's actual average earned ROE is below the average of the monthly average yields of 30-year U. S. Treasury bonds for the same 2-year period, then the Company may request an increase in its base rates. Under Section 16-111(g), projected ROEs are required to determine the likelihood that the Company would be entitled to request an increase in base rates. The 2-year average of the monthly average yields of 30-year U.S. Treasury bonds for the period ended December 31, 1998 is 6.09% (IP Exhibit 3.7). The Company projects that this average will remain level during the mandatory transition period. The Company's projected ROEs for the period December 31, 1999 through December 31, 2004, do not fall below their projected U. S. Treasury bond yield average. In addition, I compared the Company's projected ROEs to the historical total return of long-term government bonds for the period from 1926 to 1997, or 5.6%¹. The Company's projected ROEs for the period December 31, 1999 through December 31, 2004, do not fall below this historical yield.

¹*Stocks, Bonds, Bills, and Inflation 1998 Yearbook*, Ibbotson Associates.

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93 **Q. What is your conclusion?**

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95 A. Based upon my evaluation, there is not a strong likelihood that consummation of
96 the proposed transaction will result in the electric utility being entitled to request
97 an increase in its base rates during the mandatory transition period pursuant to
98 Section 16-111(d) of the Act.

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100 **Q. Does this conclude your direct testimony?**

101

102 A. Yes, it does.